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In the

Supreme Court of the United States

OCTOBER TERM, A. D. 1964.

No. [redacted] 13

WALKER PROCESS EQUIPMENT, INC.,
Petitioner,

vs.

FOOD MACHINERY AND CHEMICAL CORPORATION,
Respondent.

REPLY BRIEF OF PETITIONER IN SUPPORT OF THE PETITION FOR WRIT OF CERTIORARI

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Authorities Cited

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No. 602

WALKER PROCESS EQUIPMENT, INC.,
Petitioner,

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Respondent.

REPLY BRIEF OF PETITIONER IN SUPPORT OF THE PETITION FOR WRIT OF CERTIORARI

In neither of its two briefs* can respondent justify the decision of the Court below, nor minimize the public importance of the questions presented.

RESPONDENT MISDESCRIBES THIS CASE TO ATTEMPT TO DISTINGUISH IT FROM THE "PROPER CASE" IT NOW ADMITS WOULD SOUND IN ANTITRUST

The Court of Appeals held that a claim for relief cannot be stated in any case dependent upon the ability

* The first (blue cover) is in opposition to the Petition and the second (green cover) is in answer to the Amicus Curiae brief of the United States.

to prove fraud on the Patent Office. The holding is stated in the Court's decision as follows (App. A to Pet., p. 3a):

> ". . . Walker shows us no case in which the issue of fraud on the Patent Office was used affirmatively in an anti-trust action. . . . Neither *Hazel-Atlas,* nor *Precision,* nor *Mercoid* decided, or hinted that fraud on the Patent Office may be turned to use in an original affirmative action, instead of as an equitable defense.
>
> "Since Walker admits that its anti-trust theory depends on its ability to prove fraud on the Patent Office, it follows that the district court was correct in deciding that Walker's second amended counterclaim failed to state a claim upon which relief could be granted."

Respondent concedes that holding to be incorrect in its brief replying to the Amicus Curiae brief of the United States. In a footnote to page 4, respondent says:

> "In a *proper case,* as suggested by the Solicitor General's footnote 2, fraud on the patent office may well be a component of an unlawful restraint of trade."

Respondent is not as forthright in its brief opposing the Petition. Therein petitioner's position is repeatedly mis-stated (Resp. Br.—blue cover—pp. 3, 7, 9, 13) as seeking "a determination that one who has fraudulently procured a patent has, *without more* violated the Federal anti-trust laws." (Emphasis added). The decision of the Court of Appeals is similarly misstated as, for example, at page 7 of respondent's brief opposing the Petition (blue cover) where the decision below is characterized as holding that:

". . . the mere procurement of a patent by fraud on the Patent Office *without more*, does not afford a third party . . . a private action for treble damages against the patentee under the federal antitrust laws." (Emphasis added)

MORE IS ALLEGED THAN RESPONDENT'S PROCUREMENT OF ITS PATENT BY FRAUD ON THE PATENT OFFICE

This is not a "without more" case, as respondent well knows. It is a "proper case" within the above-quoted concession of respondent's latest brief. In addition to respondent's procurement of its patent by fraud, the counterclaim alleges the damage resulting to petitioner from the *illegal monopoly* obtained, *enjoyed, and enforced* by respondent (Par. 22, Def. App. p. 68). Also alleged are the acts of respondent which compound its original fraud on the Patent Office. Such acts include respondent's denial in 1956 of any duty to investigate the question;* its bringing in 1960 of the complaint charging infringement of the patent fraudulently procured; its allegation in that complaint that the patent was "duly issued"; its evasive and false statements in resisting discovery of the facts of that fraud; its maintenance of that litigation for over two years; and, its dismissal of the complaint *with prejudice* on its own motion only after the facts of the fraud (of which respondent had knowledge from the start) had been fully established by discovery proceedings.

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* Even the admission of its denial to investigate contained in respondent's brief (p. 8) is a half truth. Respondent omits any mention that the investigation which was invited (with an express suggestion of fraud) by petitioner in 1956 was of *respondent's own* prior public use.

Respondent offers no explanation of why such allegations together with those of its fraud on the Patent Office do not spell out a "predatory scheme" which is suggested as a "proper case" on page 4 of respondent's brief answering the Amicus Curiae brief of the United States.

There also, respondent suggests as a "proper case" an "attempted monopolization or monopoly of any line of commerce within the purview of Section 2 of the (Sherman) Act."

The sole fault respondent states as to the counterclaim in this regard is the alleged failure to describe a relevant market area (Resp. Br. pp. 15-16).

In so arguing, respondent overlooks the nature of a patent. A patent is the grant of a monopoly; it is completely restrictive within the scope of its claims.

As was said by this Court in *Morton Salt Co.* v. *Suppiger Co.*, (1942), 314 U.S. 488, 491:

> ". . . A patent operates to create and grant to the patentee an exclusive right to make, use and vend the particular device described and claimed in the patent."

Solely as an exception to the public policy against monopolies does a patent normally shield the monopoly it represents from the reach of the Sherman Act. This Court so stated in its opinion in *United States* v. *Line Material Co.*, (1948), 333 U.S. 287, 309 as follows:

". . . The Sherman Act was enacted to prevent restraints of commerce but has been interpreted as recognizing that patent grants were an exception. *Bement* v. *National Harrow Co.**, *supra*, 92, 21 Cong. Rec. 2457."

In its earlier decision in *Precision Co.* v. *Automotive Co.*, (1945), 324 U.S. 806, this Court said (p. 816):

". . . A patent by its very nature is affected with a public interest. As recognized by the Constitution, it is a special privilege designed to serve the public purpose of promoting the 'Progress of Science and useful Arts.' At the same time, *a patent is an exception to the general rule against monopolies and to the right to access to a free and open market.* The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope. . . ." (Emphasis added)

Accordingly, the securing of a patent is the securing of a *per se* monopoly and the attempt to secure such a monopoly by fraudulent means must fall within the prohibition of Section 2 of the Sherman Act. Respondent recognizes (Br. p. 15) that market areas need not be shown in cases of *per se* violations of the anti-trust laws. It does not explain, and no reason is apparent, why the securing of an outright monopoly by the fraudulent use of the patent laws is not a *per se* violation.

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* This cited authority makes clear that the exemption is a reflection of the public policy rewarding inventors, by the grant of patent monopoly, "where the full benefit has been actually received" from the inventor "if this can be done without . . . countenancing acts which are fraudulent or may prove mischievous." *Bement* v. *National Harrow Co.*, (1902), 186 U.S. 70, 89-90, quoting from Chief Justice Marshall in *Grant* v. *Raymond*, 6 Pet. 218, 241.

The decision in *Cameron Iron Works, Inc.* v. *Edward Valves, Inc.*, D.C. S.D. Texas, 1959, 175 F.Supp. 423 cited by respondent (Br. p. 16) includes no holding to the contrary. It does not appear to rely on the passing observation on which respondent relies, the Court having found no illegal act. Even if raised to the dignity of District Court *dicta*, it would stand only for the proposition that to sustain an anti-trust claim without a *per se* violation, the *evidence* must show that a separate market exists for the item which is the subject of a narrow patent monopoly. The decision does not suggest, as respondent infers, that a claim for relief under the anti-trust laws is properly dismissed with prejudice on motion absent allegations spelling out a separate market.

Similarly, the other decisions cited by respondent (Br. p. 15), *Brown Shoe Company* v. *United States*, (1962) 370 U.S. 294, and *United States* v. *E. I. DuPont de Nemours & Co.*, (1957) 353 U.S. 586, do not deal with *per se* monopoly, such as that of a fraudulent patent. At most they deal with the sufficiency of the showing *as a matter of evidence*, not with the legal sufficiency of a claim for relief.

In *United States* v. *DuPont & Co.*, (1956) 351 U.S. 377, this Court was liberal as to "relevant market" where the asserted monopoly was the price fixing power resulting from producing 75% of "Cellophane," but distinguished such relevant market cases from the monopolies we here call "per se monopolies", saying (p. 395):

> "Illegal monopolies under Sec. 2 may well exist over limited products in narrow fields *where competition is eliminated.*" (Emphasis added).

In any event, pleading deficiencies of the character urged by respondent could not justify, as here occurred, a dismissal *with prejudice* of a claim for relief on the *first occasion* such deficiencies were noted. Such deficiency

could have been remedied by amendment,* leave for which is required to be "freely given when justice so requires." Rule 15, Federal Rules of Civil Procedure.

RESPONDENT'S ARGUMENTS EMPHASIZE THE IMPORTANCE OF A DECISION ON THE QUESTIONS PRESENTED

Respondent attempts no denial of the proposition advanced by petitioner that if the decision below be allowed to stand there will be no effective deterrent to the practice of fraud on the Patent Office. Indeed, respondent would reward the fraud-feasor for his fraud by permitting him on the rare occasions when his illegal monopoly is discovered and painlessly terminated, to retain all the fruits of that monopoly.

The argument advanced by respondent (Br. p. 7) is that it is enough that a competitor is free to infringe a fraudulently obtained patent, and when sued for infringement, can invalidate the patent on the basis of fraud.

As is illustrated by respondent's enjoyment of the fraudulent monopoly throughout the life of its patent, such procedure affords but little hope of ever terminating the illegal monopoly short of its natural death by expiration of the patent.

The procedure is impractical even to discourage fraud for other obvious reasons. A competitor having no proof

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*For example, such amendment could have included allegations based on the fact established by discovery proceedings (Def. App., p. 54) that respondent had had virtually no competition throughout the life of its patent in the sale of diffusion equipment, clearly a line of commerce. A sworn estimate (by petitioner, printed by respondent on pp. 8-9 of Appendix of Appellee) indicates that respondent made an *extra* 12-24 Million Dollar profit by selling at three times competitive prices.

of fraud could rarely afford to infringe on the mere hope of establishing such a defense. Even with knowledge of the fraud, the expense of an infringement suit, especially when added to the damage caused by the illegal monopoly, would render the competition suggested by respondent prohibitive to a small competitor and unattractive financially even to large competitors.

From the standpoint of principles of justice, respondent's proposal is a new extreme. A competitor damaged by a fraudulent patent shall not only be deprived of relief for such damage, but additionally is expected to undertake the expense of an infringement suit. According to another part of the decision below, the competitor could not even hope for an award of attorney's fees.

In various ways, respondent expresses the philosophy that a fraudulent patent is no different from any other invalid patent. For example, respondent suggests (Br. p. 8):

> ". . . There is nothing *sui juris** about invalidity occasioned by fraud on the Patent Office in contrast to invalidity by reason of lack of invention, insufficient disclosure, or invalidity for any other reason."

The duty owed to the Patent Office by those seeking patents is differently considered by this Court in its opinion in *Precision Co.* v. *Automotive Co.*, (1944), 324 U.S. 806. There, the Supreme Court said (p. 818):

> ". . . Those who have applications pending with the Patent Office or who are parties to Patent Office proceedings have an uncompromising duty to report to it all facts concerning possible fraud or inequitableness underlying the applications in issue. *Cf. Crites, Inc.* v. *Prudential Co.*, 322 U.S. 408, 415. This duty

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* *sui generis?*

> is not excused by reasonable doubts as to the sufficiency of the proof of the inequitable conduct nor by resort to independent legal advice. Public interest demands that all facts relevant to such matters be submitted formally or informally to the Patent Office, which can then pass upon the sufficiency of the evidence. *Only in this way can that agency act to safeguard the public in the first instance against fraudulent patent monopolies.* Only in that way can the Patent Office and the public escape from being classed among the 'mute and helpless victims of deception and fraud.' *Hazel-Atlas Glass Co.* v. *Hartford-Empire Co., supra,* 246." (Emphasis added)

Respondent also contends (Br. p. 9) that petitioner has not suggested a distinction between the monopoly of a fraudulently obtained patent and that of a patent invalid for other reasons. The logic or relevancy of such argument is not stated. Because the same result can be achieved in innocent and fraudulent acts, and may have the same result, hardly makes fraud and innocence equal legal or moral qualities. The distinction is inherent in the manner and intent with which the monopoly is acquired in each instance. This Court has long recognized that the public policy exempting patents from the general rule against monopoly does not extend to cases of fraud. *Bement* v. *National Harrow Co.,* (1901) 186 U.S. 70, 89-90.

The position of petitioner in this regard is clearly set forth in the Petition (p. 11) as follows:

> "If fraudulently procured, the patent cannot render protection from the anti-trust laws to the monopoly it represents."

Moreover, petitioner has made clear in its briefs below that it is confining its attention to fraudulently procured patents. Petitioner has not suggested, and a decision

on the questions presented would not even imply a holding that any good faith use of the patent laws is within the contemplation of the anti-trust laws.

RESPONDENT DOES NOT DISTINGUISH THE DECISION IN SHAWKEE MFG. CO. v. HARTFORD-EMPIRE CO.

The Petition (pp. 7-8) urges that the availability of relief of the type here sought was recognized by this Court in *Shawkee Mfg. Co.* v. *Hartford-Empire Co.*, (1944) 322 U.S. 271. Respondent (Br. pp. 10-11) contends that that decision has no application for the irrelevant reason that in subsequent proceedings, "all claims for loss of rights or compensatory damages were rejected as speculative" by the Court of Appeals for the Third Circuit.

That the Court rejected *compensatory damages* only because speculative, and awarded punitive damages, shows that the Court assumed that compensatory damages would be proper for any *proved* injury. In the present case, the petitioner has been deprived of its chance to *prove* injury.

The *Shawkee* decision and the decision in the companion case of *Hazel-Atlas Co.* v. *Hartford-Empire Co.*, (1944), 322 U.S. 238 are said by respondent (Br. p. 11) to be distinguishable since they involved the fraudulent procurement of a judgment as well as fraudulent procurement of a patent. The point is without merit. Nowhere in those decisions did this Court state, hold or suggest that fraud on the courts is anymore reprehensible than

fraud on the Patent Office.* Moreover, respondent does not explain why a fraudulently obtained patent should act as a shield for a fraud-feasor while a fraudulently obtained judgment does not.

THAT THE GOVERNMENT ALONE HAS POWER TO CANCEL A PATENT DOES NOT BAR PETITIONER'S CLAIM

Along the same vein, respondent urges (Br. pp. 11-12) that petitioner's affirmative cause of action is barred by this Court's decisions holding that the government alone can sue to cancel a patent. Respondent attempts to apply that doctrine here by reasoning that a private damage claim "is a collateral attack on the validity of the patent, *viz.*, an attempt to nullify it or, in effect, to cancel it."** (Resp. Br. p. 13).

This argument cannot be reconciled with respondent's concession in its later filed brief answering the Amicus Curiae brief of the United States (p. 4) that in a "proper case" fraud on the Patent Office can be "a component of an unlawful restraint of trade."

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* Of especial application to respondent's argument is the classic statement made in 1896 by the English jurist, Lord MacNaghten in *Reddaway* v. *Ranham*, A.C. 199, 221, 25 English Ruling Cases 193, 212:

> "'But fraud is infinite in variety; sometimes it is audacious and unblushing; sometimes it pays a sort of homage to virtue, and then it is modest and retiring; it would be honesty itself if it could only afford it. But fraud is fraud all the same; and it is the fraud, not the manner of it which calls for the interposition of the Court.'"

** Respondent has not explained how a claim existing after the patent has already become a nullity can be a mere attempt to nullify that patent.

In thus destroying its prior argument respondent rejects the very basis of the District Court's decision. The District Court, as stated in the opinion of the Court of Appeals (App. A to Pet., p. 2a), found that petitioner was:

> ". . . attempting to use the issue of fraud to do indirectly what it could not do directly, *i.e.*, procure a cancellation of the patent in suit; and concluded no claim was stated upon which it could grant relief."

For this additional reason, the holding of the Court of Appeals should not be permitted to stand.

The argument is erroneous for other reasons. The Court of Appeals stated (App. A to Pet., p. 3a) and respondent concedes (Br. pp. 7-8) that fraud on the Patent Office is a defense in an infringement action. No explanation is given as to why the defense which invalidates a patent does not conflict with the government's exclusive right to cancel, whereas the same facts, pleaded as a component of an affirmative claim for relief, does conflict.

Further, petitioner's claim is brought under the anti-trust laws and under common law theory of recovery, not the patent laws. In *Mercoid Corp.* v. *Minneapolis-Honeywell Co.*, (1944), 320 U.S. 680 succinctly stated (p. 684):

> ". . . The legality of any attempt to bring unpatented goods within the protection of the patent is measured by the anti-trust laws not by the patent law."

Measured by the anti-trust laws, principally, Section 2 of the Sherman Act, a claim for relief is made out.

A MONOPOLY OBTAINED BY PRACTICING FRAUD ON THE PATENT OFFICE IS A VIOLATION OF THE CLEAR TERMS OF SECTION 2 OF THE SHERMAN ACT

The Petition (p. 11) points out that the conduct alleged in the counterclaim falls within the express prohibition of Section 2 of the Sherman Act. Respondent does not dispute this, but makes the irrelevant assertion (Br. pp. 13-14) that not every instance of unclean hands or misuse of patents violates the Federal anti-trust laws. On its face, that general observation has no relevance to a practice condemned by the clear terms of the anti-trust laws.

Moreover, this is not a case of misuse of a *legal* patent, but one involving a patent *wholly fraudulent*, being based on an oath falsely denying the patent owner's own invalidating acts.

INFRINGEMENT ACTIONS BASED ON PATENTS PROCURED BY FRAUD SHOULD BE HELD "EXCEPTIONAL"

The arguments presented in the Petition (pp. 12-14) on attorney's fees are not met by respondent. The arguments of respondent are premised on the assumption that there is no distinction between an infringement suit brought on a fraudulently obtained patent and one brought on a patent invalid for other reasons. The decisions of the Courts below have the effect, though unintended, of condoning fraud. This Court should make clear that fraud is never condoned and that infringement suits brought on a patent obtained by denying facts known to the patentee (or by other fraud on the Patent Office) are "exceptional" cases within the meaning of the statute (Title 35, U.S.C., Sec. 282), permitting an award of attorney's fees.

Especially should this Court make clear that such suits are "exceptional" where, as here, the fraud is that of the plaintiff (respondent) who brings the action; the suit is continued for two years while discovery is resisted by false and evasive answers; and, when the fraud is finally established, the plaintiff, by its motion, obtains dismissal with prejudice.

Respectfully submitted,

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